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SUBJECT: Ghana - Impact of Rising Food/Agricultural Commodity Prices

Ref: State 39410

¶1. Summary: Ghana is a net food importer and has seen a significant increase in the price of food staples, some portion of which may be explained in part by seasonal factors and the high cost of petroleum. In general, Ghana tends to record surpluses in tubers and deficits in cereals and the situation is currently not dire. Ghana could produce more and surplus crops can be substituted to cover deficit crops. While price increases are significant, political and economic effects are still relatively muted. There will, however, be a temptation in an election year to respond with increased subsidies. Because of the high level of subsistence farming in Ghana, the increased prices are unlikely to trigger a significant increase in production in the near term. At the policy level, Ghana needs to look beyond short term measures of aid or increased government subsidies for agriculture to developing its latent capacity to become a regional center of agricultural trade, technology and supply. End Summary.

Demand

¶2. The major staple foods consumed in Ghana are cassava, yam, plantain, cocoyam, maize, sorghum, millet, rice, and wheat. Despite the drought and subsequent floods in 2007, food production was better than most years in recent times. According to the Ministry of Food and Agriculture, production of cassava, yam, plantains, cocoyam and maize exceeded national demand in 2007. There was a deficit of 62% and 54% for sorghum and millet due to 2007 floods in the North but those crops constitute a very small proportion of total food production and consumption (e.g., 2006 sorghum and millet production combined in 2006 was 480,000 metric tons, while maize production was 1,189,000 metric tons and yam production 4,288,000 metric tons). About 80 percent of the 600,000 metric ton of rice consumed in Ghana is imported. Ghana could potentially produce greater quantities but there has been a consumer preference for imported rice. Ghana imports all of its wheat and sugar; there is no domestic production of these commodities.

¶3. Consumers of rice and bread (bread in Ghana is made of wheat flour) have complained about the rising price of these products. In spite of the rising prices, a reduction in sales has not been reported. Shifting consumption to other products may occur in the coming months but is not evident yet, probably because of the general rise in prices of substitutes at this time of the year.

Supply

¶4. There are indications that domestic production of rice and maize may increase this farming season because of the relatively high world price and export restrictions being implemented by countries that provide Ghana's imports. A new high yield, hardy rice variety that may appeal to consumers, NERICA, is being promoted by the Ministry of Food and Agriculture. The Government of Ghana (GoG) on April 2, 2008 announced a joint venture with Prairie International Rice Millers of Texas Inc. and Development Finance and Holding Company to run a farm abandoned since 2001. The project was established in 1997, by the GoG and Quality Grain of the USA with ambitious production targets that were never realized.

¶5. A large proportion of Ghana's production comes from subsistence

farms. A relatively small proportion of most harvest is sold (only about 12 percent of sorghum and millet is sold but 42 percent of maize), response to the high price will be limited for most crops in the near term. There are no current indications of shift in production between food and non-food commodities. There is no commercial cultivation of biofuels. There is a pilot program focused on the Jatropha plant, a non-food crop and Brazil recently signed an agreement with GoG to produce biofuels with sugarcane. There has also been some exploration of using palm oil.

¶6. Post harvest losses are estimated at 20-30 percent for all farm crops because of the poor nature of roads and lack of storage and processing facilities. The price of agricultural inputs on the local market, particularly fertilizer, has risen by about 50 percent since April 2007. For most subsistence farmers the use of fertilizer will be reduced unless there is some assistance or subsidy provided.

Political Impact

¶7. Ghana has not experienced public protests, violence or class-based clashes as a result of the rising food prices. However, continuing increases may affect the ruling party's chances of retaining power in the upcoming December, 2008 polls. There are calls coming from some politicians and political commentators to subsidize food and increase subsidies to agricultural producers. There is currently no public resentment towards biotechnology and biofuels policy. Ghana has a biotechnology policy which generally accepts the import of biotech products. A legislative instrument (akin to a regulation) was recently issued that allows trial testing

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of GMO crops but Ghana is some ways from embracing widespread use.

Economic Impact

¶8. Prices of all staple foods are increasing, but the Ghana Statistical Service (GSS) attributes this primarily to petroleum price increase and seasonal factors. Between January 2007 and March 2008, the price of imported rice went up by 39 percent while that of maize was up 58 percent over the same period. Inflation has increased over five consecutive months from 10.14 percent in October 2007 to 13.79 percent in March, 2008. The GSS specifically mentioned food price increase as the primary cause of the February and March rise in inflation, but added that these months are planting months when the prices for some food items traditionally increase. Food price increases are expected to slow down in June when the harvests begin and then fall later in the year, if past trends hold. Oil prices remain a key driver of inflation.

¶9. There will be an impact of food price increases in the trade balance but it will be relatively small compared to the impact of oil prices. If the price increases persist, public sector labor demand for higher wages, which is already present for a variety of reasons, could exacerbate government efforts to rein in an already burgeoning fiscal deficit.

¶10. About 18 percent of Ghana's population of about 22 million are considered extremely poor; they are currently unable to meet basic nutritional consumption needs even if they spend all their income on food. A total of 28.5 percent of the population is considered poor; they make enough to meet basic food needs but do not earn enough to meet both food and basic non-food consumption needs. We do not have statistics on how many poor households are net consumers of purchased food but some statistics may be available in the coming months.

Environmental Impact

¶11. Ghana's environmental management is generally quite weak, including in the agricultural sector, but we have not yet seen any particular or new effect on the environment from rising food prices.

¶12. The GoG has not made any changes in tariffs, quotas or other import restrictions. In a press statement on the world food situation in April, the Minister of Food and Agriculture said legislation is being proposed to make flour mills in Ghana incorporate 20 percent of high quality cassava flour into bread and pastry flour. There are no export restrictions, but the Minister said there will be measures to check smuggling to the neighboring countries, most of which have removed tariffs on rice. The GoG will intensify its policies of increasing food production and encourage people to see the rise in food prices as an opportunity to go into agribusiness. The GoG has started implementing a fertilizer-for-grain exchange to generate reserves, although the process is not very clear, and also plans to import food for strategic reserves.

¶13. The high retail oil prices have added to food hike prices and inflation by increasing the costs of everything from packaging to transportation. To rein in inflation, the central bank has increased the prime rate from 12.5 percent to 14.5 percent since November 2007. Lending rates have started to increase from an already high level of about 20 percent. This could potentially dampen the supply response to higher food prices as access to credit will be needed for expanded production.

Impact on Post Programs

¶14. Post is extensively engaged in supporting Ghanaian agriculture, primarily through the MCA Compact and USAID's TIPCEE (Trade and Investment Program for a Competitive Export Economy). The increased food prices are giving added impetus to projects that will address supply, marketing, productivity and trade constraints. These include an ongoing public-private Seed Alliance partnership and scaling up a pilot Grain Alliance program geared to promoting commercial grain production, milling and marketing. Increased food prices could heighten farmer interest and commitment to participating in MCC programs. The MCC will improve farmers' access to credit and strengthen capacity of Ghana's rural banks, a component that could be particularly valuable in ensuring access to credit for expansion and new entrants. The increased cost of inputs will be a challenge for all USG programs but will also serve as an incentive to increase efficiencies and reduce costs of transport and shipping.

Policy Recommendations

¶15. Post would recommend that Ghana view the food crisis as an opportunity to take much needed steps to create and implement a

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strategic vision for agriculture in Ghana. While Ghanaian officials pay heavy lip service to the importance of agriculture, the approach tends to be project-oriented and piecemeal. Ghana has considerable potential to increase production, particularly if it embraces improved production technologies and seed distribution policies, and places greater emphasis on fostering a commercial agricultural sector. Ghana should resist the temptation to turn the crisis into a generalized call for resumption of the U.S. food assistance program, which is ending this year. Ghana also needs to develop increased capacity to monitor developments in the sector to ensure a timely response.

¶16. Post recommends that the USG focus strongly on working with ECOWAS to move forward on reduction of tariff and non-tariff trade barriers, not only on foodstuffs and inputs but on transportation and corruption as well. The current crisis also presents opportunities for Ghana to move ahead with exploration of the viability of non-food crop biofuels.

Bridgewater